

Overview of Islamic finance in the West African Economic and Monetary Union



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Created on the 12th May 1962, the West African Monetary Union (WAMU) is an area bringing together eight West African countries, namely Benin, Burkina Faso, the Ivory Coast, Guinea-Bissau, Mali, Niger, Senegal and Togo. It is characterized by the recognition of the same currency unit, the XOF.

The total population of this area exceeds 110 million people. It should be noted that about 60% of this population are Muslims, with a percentage close to 90% in countries such as Senegal and Niger, and that all these countries are members of the IsDB.

After seven years of GDP growth, at an annual average of 6%, according to the WAMU monetary policy report, the growth of the union's economic activity is expected to be established at 6.7% in 2019. The dynamic of economic activity in the union should be consolidated in 2020, with a forecast growth rate of 6.5%.

The WAMU financial system has many supervisors:

1. The money market is supervised by the regional Central Bank of West African States and the Banking Commission.
2. The capital market is controlled by the Conseil Régional de l'Épargne Publique et des Marchés Financiers (CREPMF), the capital market authority.
3. The insurance sector is supervised by the Inter-African Conference on Insurance Markets, and
4. The pension funds are controlled by the Inter African Social Security Conference.

When it comes to Islamic finance, West Africa is certainly one of the most attractive regions. Two Islamic banks in Niger and Senegal operate in the WAMU and five Islamic bank branches opened by Coris Bank Group are in Burkina Faso, Benin, the Ivory Coast, Mali and Senegal. In the microfinance sector, we noted five microfinance institutions — one each in Burkina Faso, the Ivory Coast, Mali and two in Senegal — offering Islamic services.

On the capital market sector, despite the absence of a regulatory framework dedicated to issuing Islamic financial products, four countries, namely Senegal, Togo, the Ivory Coast and Mali, have issued a total of six long-term Sukuk Ijarah which amounted to XOF864 billion (US\$1.47 billion) by using the regulatory framework of the mutual fund securitization set up in March 2010.

Following the new regulatory framework promoting banking and money market products, as well as Islamic microfinance, the CREPMF is working on a project that will lead to the adoption of Islamic capital market regulations.

The main actions already carried out are:

- Membership of IFSB as an associate member in December 2016
- Organization of a workshop for WAMU capital market authority and market participants on the implementation of IFSB standards in July 2018 in Abidjan, the Ivory Coast

- Sharing experience with Otoritas Jasa Keuangan (the Indonesian capital market authority) in October 2018 and with Malaysian key financial players in November 2018
- Designation of a representative of the CREPMF as a member of the IFSB Working Group on Investor Protection in Islamic Capital Markets whose work began in January 2019
- Setting-up of an internal unit dedicated to Islamic capital markets whose main activities cover the following aspects:
 - a) the proposal of the draft regulations on Islamic financial instruments (Sukuk and Islamic mutual funds), listing rules and indices composition, Shariah boards and such, and
 - b) the follow-up of exchanges with external partners (IFSB, Islamic finance news and such) as part of the development activities of Islamic capital markets in the WAMU
- Signing of an MoU with the Islamic Corporation for the Development of the Private Sector on the fringes of the 44th IsDB annual meeting held in Marrakech on April 2019, for technical and financial assistance with the regulatory framework project for Islamic capital markets (Sukuk, Islamic ICS and any related Islamic financial product)
- Participation of the internal unit to the IFSB-FIS workshops on IFSB standards for regulatory and supervisory authorities for the Islamic capital market and Takaful sectors in October 2019
- Signing an MoU with FSD Africa in November 2019, for the purpose of contributing to the financing of the implementation of Islamic finance
- Translation of IFSB standards into the French language for best adaptation and implementation in the WAMU by internal services, and
- Participation in the IFN Sovereign Sukuk Dialogue 2019 in Washington DC.

Adapting a regulatory framework to Islamic finance, particularly to Sukuk issuance, will contribute to developing a new source of funding suitable to the private sector and SMEs.

The approach is to create a relevant ecosystem for Islamic capital markets even if BRVM, the regional stock exchange, had been ranked the first Islamic financial place in 2016. For Sukuk, the new rules will be profitable for both the private and public sectors, not only for the public sector as seen currently.

In this context of sustained economic growth, the WAMU states have developed ambitious national development plans that should enable them to achieve emergence during the next decade. The financing of these plans supported by the WAMU authorities at the highest level requires the mobilization, at a low cost, of significant long-term capital to fill the deficits in infrastructures (roads, bridges, schools, airports, hospitals, etc) in WAMU countries. Sukuk therefore appear to be privileged instruments to address this need. (☺)